

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 2009-226-E

In the Matter of:)	
)	
Application of Duke Energy Carolinas,)	REBUTTAL TESTIMONY OF
LLC for Authority to Adjust and Increase)	PHILLIP O. STILMAN FOR
Its Electric Rates and Charges)	DUKE ENERGY CAROLINAS, LLC
)	
)	

I. INTRODUCTION AND PURPOSE

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Phillip O. Stillman. My business address is 526 South Church Street,
3 Charlotte, North Carolina.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am General Manager, Regulatory Accounting and Planning for Duke Energy
6 Business Services, LLC, which provides regulatory accounting and planning
7 support for Duke Energy's franchised electric and gas operations, including Duke
8 Energy Carolinas, LLC ("Duke Energy Carolinas" or the "Company").

9 **Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN SUPPORT OF**
10 **DUKE ENERGY CAROLINAS' APPLICATION IN THIS DOCKET?**

11 A. Yes.

12 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

13 A. The purpose of my rebuttal testimony is to respond to certain accounting
14 adjustments proposed by the Office of Regulatory Staff ("ORS"), including
15 removal from the adjusted test year, expense of amounts for (1) inflation on non-
16 labor operations and maintenance ("O&M") expenses, and (2) operating costs
17 associated with the Allen Steam Station scrubbers and additional ownership
18 interest in Catawba Nuclear Station.

II. RESPONSE TO ORS ADJUSTMENTS

20 **Q. DO YOU AGREE WITH ORS' PROPOSED ADJUSTMENT TO IN-**
21 **PERIOD INFLATION?**

22 A. No, I do not. ORS' removal of the Company's proposed \$4,106,000 adjustment
23 to annual non-labor O&M expense in the test year fails to recognize the impact of

1 inflation experienced by the Company during the test year. The purpose of the
2 Company's adjustment is to reflect that the prices Duke Energy Carolinas paid for
3 supplies and services used in the operations of the utility increased during the test
4 year.

5 To reflect the real cost of goods experienced by the Company during the
6 test year, Duke Energy Carolinas used the Consumer Price Index ("CPI") to
7 adjust its test year expenses. The CPI, which measures the average change in
8 prices of goods and services, was used in the Company's original adjustment
9 because it is widely recognized and produced a reasonable inflation rate to
10 recognize the change in prices the Company incurred during 2008.

11 The Company also consulted the Bureau of Labor Statistics for inflation
12 rates that occurred each month during 2008 using the Producer Price Index
13 ("PPI"). The PPI measures the average change in prices received by producers of
14 goods and services. This index represents most closely the costs of goods and
15 services incurred by Duke Energy Carolinas. The PPI indicates that prices
16 increased by 2.3% on average over the test year. This monthly index fully
17 supports as known and measurable the Company's inflation rate of 1.9% used in
18 its inflation adjustment in its pre-filed exhibits.

19 **Q. DO YOU AGREE WITH ORS' ADJUSTMENT TO THE COMPANY'S**
20 **OPERATING COSTS ASSOCIATED WITH THE ALLEN SCRUBBERS**
21 **AND ADDITIONAL OWNERSHIP INTEREST IN CATAWBA?**

22 A. No, I do not. ORS Witness Scott decreased the Company's adjustment to reflect
23 in the test year an annual amount of O&M expense related to the operation of the
24 Allen scrubbers and the additional ownership interest in the Catawba Nuclear

1 Station. However, the Company's *actual* O&M costs incurred for these
2 additional facilities fully supports the level of costs the Company included in its
3 cost of service. Actual levels of operating costs incurred year to date support an
4 annual expense of \$24 million, which represents an increase, rather than a
5 decrease as suggested by Witness Scott, to the amount included in test year
6 expense by Duke Energy Carolinas in its Application.

7 **III. CONCLUSION**

8 **Q. DOES THIS CONCLUDE YOUR PRE-FILED REBUTTAL TESTIMONY?**

9 **A. Yes.**